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ECONOMIC TRENDS

1989 MID YEAR REVIEW

This issue of Economic Trends provides a general overview of the economic situation in Canada in the first half of 1989, and a more detailed examination of Prince Edward Island based on preliminary information for 1989. The reader should bear in mind that this information is subject to revision, though it does provide sufficient data to gain general insights into the economy.

1. National Outlook

The Canadian economy posted a 3.1 per cent increase in real Gross Domestic Product during the first half of 1989. This compares to a 5.0 per cent increase in 1988. The slower output growth follows strong gains in North America in 1988 which has led to higher inflation and heightened interest rates in 1989. Economic growth in 1989 has therefore weakened in both countries. Unemployment rates in Canada in the first half of 1989 have remained low, averaging 7.6 per cent. This is a marginal decline from the 7.8 per cent average monthly unemployment rate in 1988.

Business investment in fixed capital led Canadian economic growth in the first half of 1989 with constant dollar expenditure increasing by 10.8 per cent over the same period in 1988 though growth weakened in the second quarter. Residential construction investment in the first half of 1989 increased 7.4 per cent. Housing starts, on a seasonally adjusted annual rate, increased slightly to average 217,000 in the first six months of 1989 although the trend in housing starts was sharply downwards towards the end of the period. Business machinery and equipment spending maintained a strong upward trend in this expansion as constant dollar outlays for machinery and equipment in the first half of 1989 rose 16.3 per cent over the same period in 1988.

The volume of personal expenditures on consumer goods and services during the first half of 1989 increased by 4.0 per cent over the same period in 1988. This is slightly below the annual gain of 4.3 per cent for 1988.

The Canadian balance of trade in goods and services declined sharply in the first half of 1989. This was the result of both rising volumes of imports and falling volumes of exports. The merchandise trade surplus in the second quarter of 1989 was the lowest recorded since 1978.

The rate of inflation, as measured by the year over year change in the All Items Consumer Price Index increased steadily in the first half of 1989. The rate of increase in the Canadian Consumer Price Index in the first six months of 1989 was 4.7 per cent compared to 4.1 per cent in the same period in 1988. The inflation rate, which had remained in the neighbourhood of 4 per cent between 1984 and 1988 reached 5.4 per cent in June 1989.

In response to these inflationary pressures, the Bank of Canada continued a restrictive monetary policy. Interest rates rose throughout the first 6 months of the year with the Bank Rate rising from 11.5 per cent in January to 12.3 per cent in June. The Chartered Banks prime lending rate rose to 13.5 per cent in the first half, its highest level since July 1984. The interest rate differential between Canadian and U.S. three month Treasury Bills reached 3.7 percentage points in June 1989, the highest it has been since early 1986.

2. Prince Edward Island

Prince Edward Island's economy continued to expand in the first half of 1989 although at a somewhat slower pace when compared to the first half of 1988. Increases were recorded in farm cash receipts, crop prices, employment, non-residential construction, international exports, and tourism. Areas of decline, comparing the first six months of 1989 with those of 1988 were; lobster landings, down by 7.0 per cent, housing starts down by 24.3 per cent and the sale of new motor vehicles which declined by 11.2 per cent.

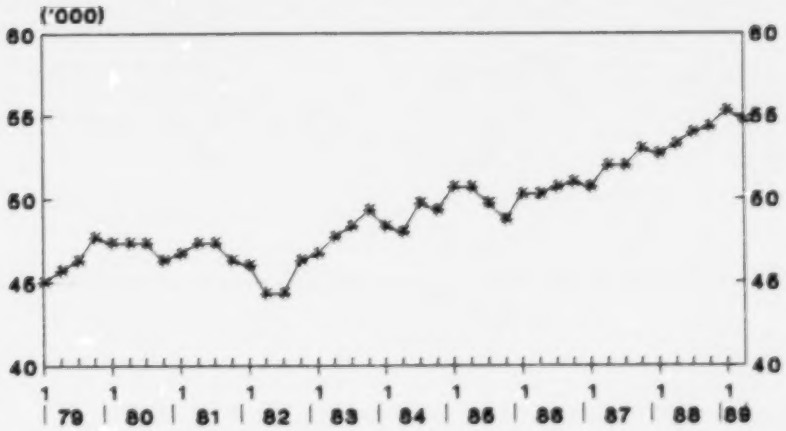
(a) Labour Market

The unadjusted employment level for Prince Edward Island averaged 53,000 per month during the first half of 1989, an increase of 2.1 per cent over the 51,900 average employment level for the same period in 1988. In the first half of 1989 employment gains were concentrated in construction, trade, transport and public administration. Increased employment in the construction industry is related to the increase in the value of non-residential building permits and the increase in capital construction taking place on Prince Edward Island. Seasonally

construction taking place on Prince Edward Island. Seasonally adjusted employment figures for Prince Edward Island averaged 55,000 for the first six months in 1989 compared to an annual level of 54,000 in 1988. Diagram 1 shows the total quarterly seasonally adjusted employment levels for Prince Edward Island from 1979 to 1989.

Diagram 1

Quarterly Employment
Prince Edward Island
1979 - 1989



The seasonally adjusted unemployment rate averaged 13.1 per cent for the January to June 1989 period, which is considerably lower than the 13.7 per cent for the same period in 1988. It was higher than the annual unemployment rate for 1988 which was 13.0 per cent. The total participation rate increased slightly to reach 65.2 per cent for the first half of 1989 compared to the 1988 annual rate of 64.0 per cent.

The number of unemployment insurance beneficiaries reached an average monthly level of 15,443 during the first half of 1989, an increase of 385 over the first half of 1988.

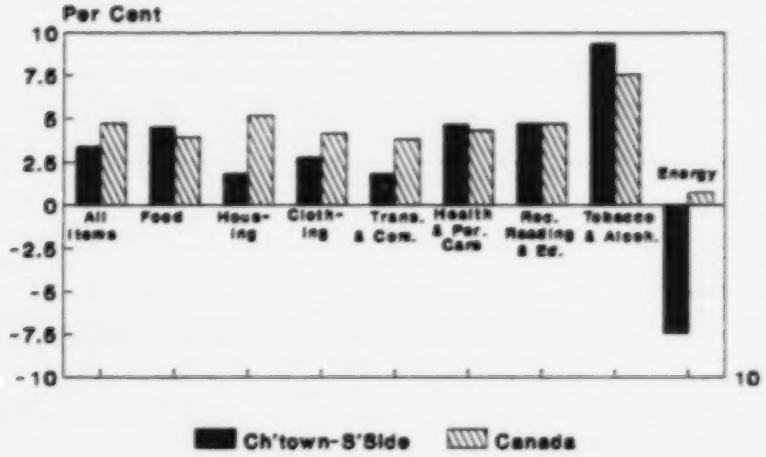
(b) Consumer Prices

The Charlottetown-Summerside consumer price index for all items increased 3.4 per cent during the first six months of 1989 compared to the national rate of 4.7 per cent. One of the main reasons for the lower rate on Prince Edward Island is the declining energy prices, as can be seen in Diagram 2.

The increase in the consumer price index for Charlottetown-Summerside was lower than the national rate for housing, clothing, transportation and communication and especially energy. It was the same or higher than the national rate for food, health and personal care, recreation, reading and education, and tobacco and alcohol.

Diagram 2

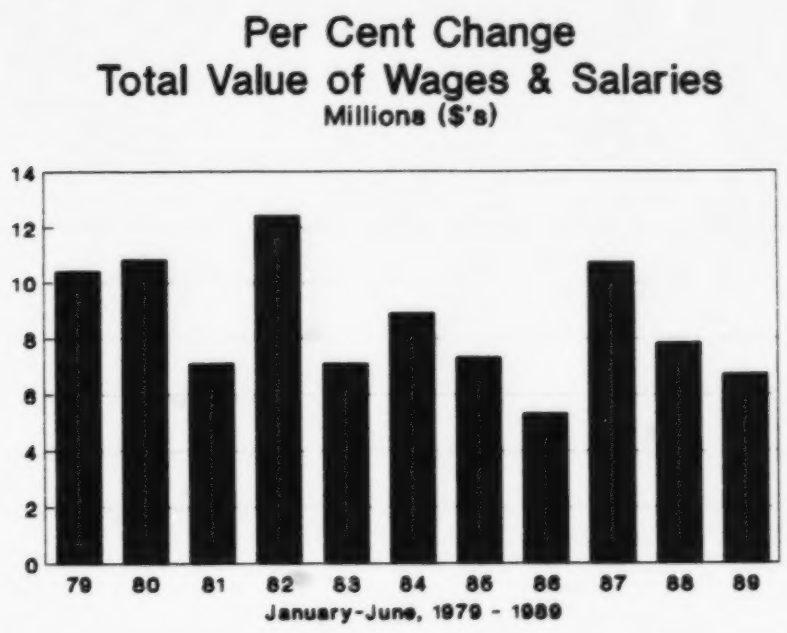
Per Cent Change in Consumer Price Index
Charlottetown-Summerside & Canada
January - June, 1989



(c) Incomes

Income for Prince Edward Islanders continued to increase in the first half of 1989 although at a slower pace than the two previous years. The largest component of income is wages and salaries which forms 51 per cent of the total income. Diagram 3 shows the percentage change for total value of wages and salaries paid on Prince Edward Island for the first half of the year from 1979 to 1989. Total wages and salaries paid on Prince Edward Island increased by 6.7 per cent to reach $430.3 million for the January to June 1989 period compared to $403.3 million the same period in 1988.

Diagram 3



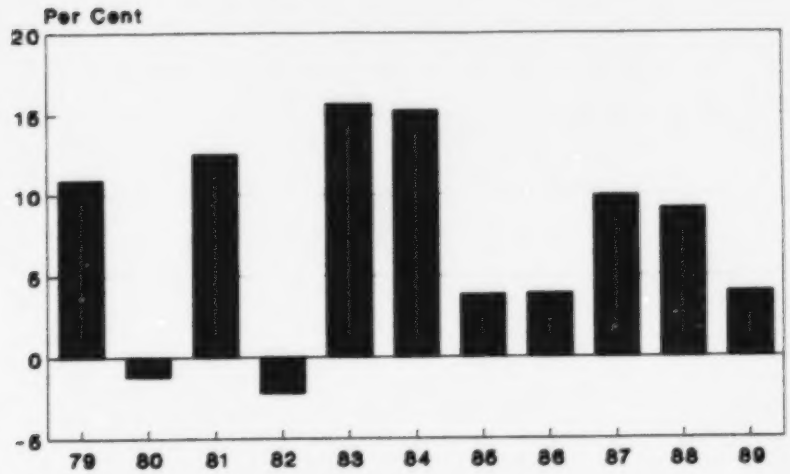
The total value of unemployment insurance benefits paid on Prince Edward Island increased by 4.4 per cent or $3.6 million, to reach $85.9 million for the first half in 1989. This increase is entirely due to increased unemployment insurance benefit payments per beneficiary, which rose by 7.9 per cent. The actual number of weeks paid for unemployment insurance for the first six months of 1989 declined in total by 13,130 or 3.2 per cent.

(d) Expenditures

Consumer spending is growing at a substantially slower pace than in the two previous years. Retail sales in the period January to June 1989 reached $331 million, an increase of 4.1 per cent over the first half of 1988. This growth rate is less than half the 9.8 per cent growth reported for the same time period in 1988. Diagram 4 shows the percentage rate of growth in retail sales in current dollars for the January to June period 1979 to 1989. Since 1983 new motor vehicle sales have been the largest component of retail sales. The value of new motor vehicle sales for the first half of 1989 was $44.5 million, a decline of 12.0 per cent over the same period in 1988. The average price per motor vehicle for the same time period increased by 10.5 per cent to reach $15,544.

Diagram 4

Per Cent Change in Retail Sales
Prince Edward Island
January-June, 1979 - 1989



International trade data for Prince Edward Island shows exports for January to June 1989 at a level of $76.0 million, an increase of 11.8 per cent over the same period in 1988. They have yet to match the values reached in 1987. The United States received over 69 per cent of Prince Edward Island's total exports, in the first half of 1989.

Tourist visitation for the first part of the summer, May 15th to June 30th 1989, increased by 6.7 per cent over 1988. In terms of auto parties the highest increase was from tourists from New Brunswick with 1,035 additional tourist vehicles coming to the Island. Receipts from restaurants, caterers and taverns for the first six months in 1989 increased by 4.6 per cent to reach $26.4 million. This is far below the growth rate of 16.2 per cent recorded in 1988 or 12.4 per cent in 1987.

The revised intentions for public and private investment in 1989 indicate record levels of expenditures on capital. Data are shown in Table 1. The largest increase in total investment spending intentions in 1989 has been in the commercial services sector, with a $21.8 million increase, or 71.7 per cent over 1988. The trade sector places second with an increase of 39.3 per cent, or $7.2 million. Residential construction investment spending intentions has increased by only 1.6 per cent over 1988.

Table 1

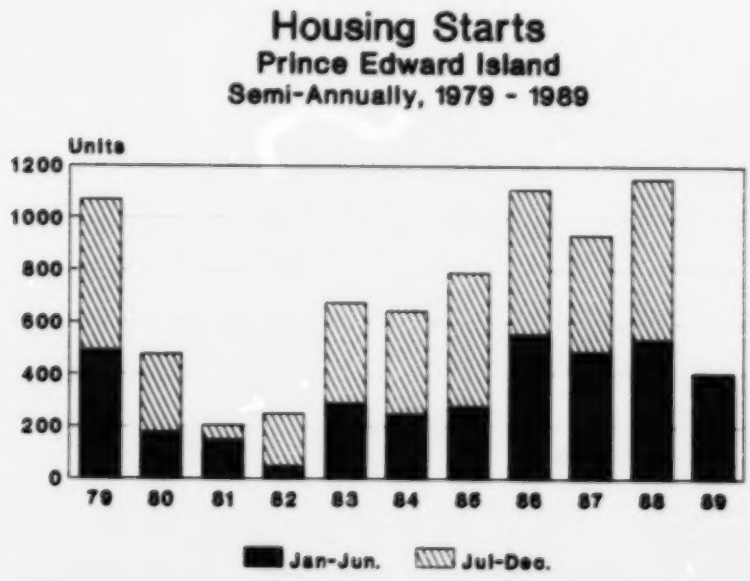
PUBLIC AND PRIVATE INVESTMENTS
PRINCE EDWARD ISLAND
REVISED INTENTIONS

INDUSTRIES	CAPITAL AND REPAIR EXPENDITURE 1988 Const. Only	1989 Const. Only	% Change 1989 1988	TOTAL CAPITAL AND REPAIR EXPENDITURE 1988 Const. & M.E.	1989 Const. & M.E.	% Change 1989 1988
Primary & Construction	21.5	23.0	7.0	72.8	78.3	7.6
Manufacturing	3.6	2.7	-25.0	22.0	17.6	-20.0
Transportation	2.3	1.8	-21.7	9.0	8.9	-1.1
Communication	7.6	8.8	15.8	26.4	29.3	11.0
Misc. Utilities	9.0	10.4	15.6	11.5	14.1	22.6
Trade	6.5	6.9	6.2	18.3	25.5	39.3
Finance	23.5	18.5	-21.3	29.9	25.2	-15.7
Commercial Serv.	6.7	26.6	297.0	30.4	52.2	71.7
Institutions	18.2	22.0	20.9	21.6	28.3	31.0
Government Dept's	87.2	88.6	1.6	99.2	105.0	5.8
Housing	146.2	148.5	1.6	146.2	148.5	1.6
Total	332.3	357.8	7.7	487.3	532.9	9.4

(Const., Construction; M&E, Machinery & Equipment)

The number of housing starts for the first half of 1989 declined by 24.5 per cent to measure 403 units, compared to 534 units in 1988 as seen in Diagram 5.

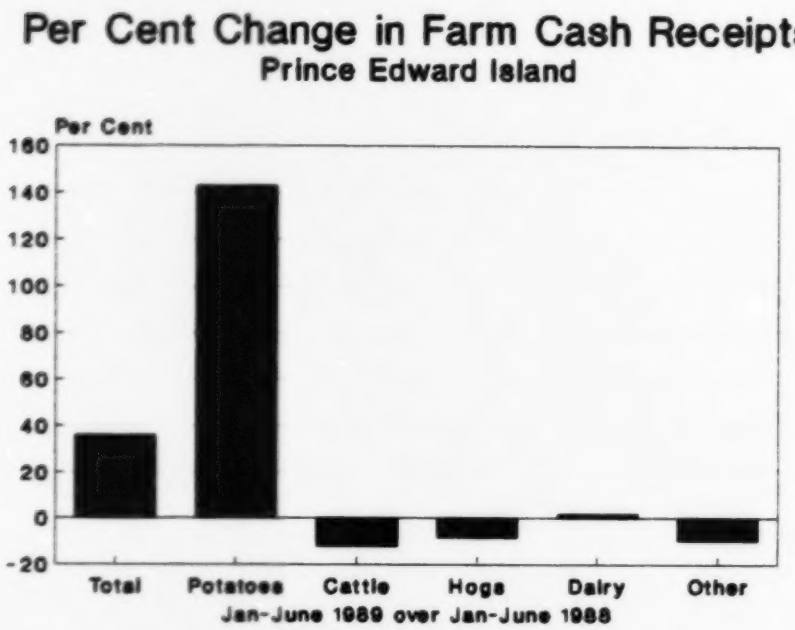
Diagram 5



(e) Agriculture

The value of farm cash receipts totalled $138.1 million for the period January to June 1989, an increase of 35.7 per cent compared to $101.8 million during the same period in 1988. The major increase in receipts for Prince Edward Island as shown in Diagram 6 was potatoes at 142.8 per cent. Declines were experienced in cattle (-11.9 per cent), hogs (-8.3 per cent), and tobacco (-54.5 per cent).

Diagram 6



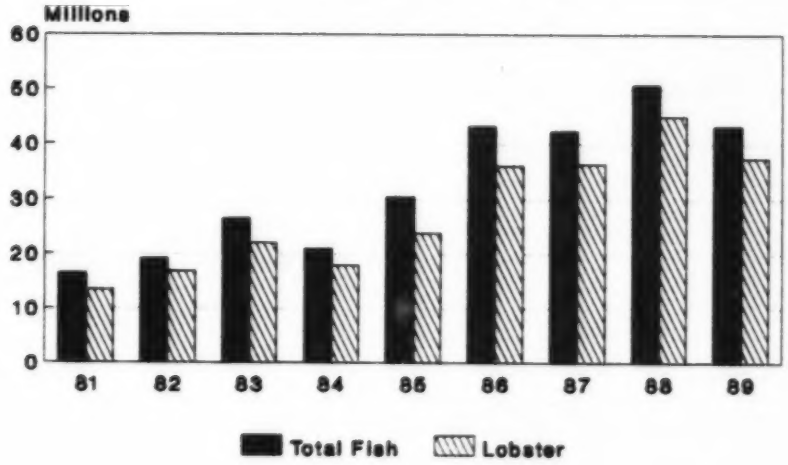
Statistics Canada estimates the seeded acreage in potatoes for 1989 at 67,000 acres, a decrease of 1,000 acres over the 1988 estimate. Potato acreage for Canada increased by 0.4 per cent to reach 278,600 acres.

(f) Fishing

According to available information the fishing sector in the first half of 1989 had a 6.0 per cent increase in the total volume of landings but this did not translate into higher values. The total value of fish landed decreased 14.7 per cent to $43,275,000. Lobster landings declined 1,259,000 pounds and the value of those landings declined 17.1 per cent to a level of $37,351,000 for the January to June 1989 period (Diagram 7). Groundfish, pelagic and estuarial fish landings, although increasing 10.4 per cent in total volume of landings declined in value by 6.1 per cent for the January to June 1989 period as much lower prices were in effect. The shellfish industry, which is recovering from difficulties in early 1988, posted a 90 per cent increase in landings but only 13.7 per cent increase in value in the first half of 1989.

Diagram 7

Value of Fish Landings
Prince Edward Island
January-June, 1981 - 1989



(g) Manufacturing

The value of manufacturing shipments in Prince Edward Island for the January to June 1989 period was $180.8 million, an increase of 1.4 per cent from the previous year. Statistics Canada now provides details on various sectors which can be seen in Table 2.

Table 2

INVENTORIES, SHIPMENTS AND ORDERS
PRINCE EDWARD ISLAND
(THOUSANDS $)

INDUSTRIES	Jan.- June 1988	Jan.- June 1989	% Change Jan.- June 1989 Jan.- June 1988
All Industries	178,374	180,788	1.4
Food Industries	117,371	118,362	0.8
Fish Products	36,431	34,320	-5.8
Agricultural Chemical	14,125	15,271	8.1
Wood Industries	7,697	5,961	-22.6
Fabricated Metal	5,083	5,067	-0.3
Non-Metallic Mineral	1,753	2,078	18.5
Other Manufacturing	3,280	3,431	4.6

3. Summary & Conclusions

The national economy entered a period of slower growth in the first half of 1989. The data available for Prince Edward Island for the January to June 1989 period indicate an overall slowing trend in the economy, compared to the healthy growth experienced in the first half of 1988. Farm cash receipts for potatoes were the strongest spot in the Island economy in the first half of 1989. Modest improvements in Prince Edward Island's economy were seen in employment, non-residential construction, crop prices, international trade, investment and tourism. Major areas of the economy showing weakness were the value of fish landings, housing starts, and the value of new motor vehicle sales.